



Northeastern Clinton Central School District

Payroll

Report of Examination

Period Covered:

July 1, 2014 – December 31, 2015

2016M-76



Thomas P. DiNapoli

Table of Contents

	Page
AUTHORITY LETTER	1
INTRODUCTION	2
Background	2
Objective	2
Scope and Methodology	2
Comments of District Officials and Corrective Action	3
PAYROLL	4
Recommendations	6
APPENDIX A Response From District Officials	7
APPENDIX B Audit Methodology and Standards	10
APPENDIX C How to Obtain Additional Copies of the Report	11
APPENDIX D Local Regional Office Listing	12

State of New York Office of the State Comptroller

Division of Local Government and School Accountability

June 2016

Dear School District Officials:

A top priority of the Office of the State Comptroller is to help school district officials manage their districts efficiently and effectively and, by so doing, provide accountability for tax dollars spent to support district operations. The Comptroller oversees the fiscal affairs of districts statewide, as well as districts' compliance with relevant statutes and observance of good business practices. This fiscal oversight is accomplished, in part, through our audits, which identify opportunities for improving district operations and Board of Education governance. Audits also can identify strategies to reduce district costs and to strengthen controls intended to safeguard district assets.

Following is a report of our audit of the Northeastern Clinton Central School District, entitled Payroll. This audit was conducted pursuant to Article V, Section 1 of the State Constitution and the State Comptroller's authority as set forth in Article 3 of the New York State General Municipal Law.

This audit's results and recommendations are resources for district officials to use in effectively managing operations and in meeting the expectations of their constituents. If you have questions about this report, please feel free to contact the local regional office for your county, as listed at the end of this report.

Respectfully submitted,

*Office of the State Comptroller
Division of Local Government
and School Accountability*

Introduction

Background

The Northeastern Clinton Central School District (District) is located in the Towns of Altona, Champlain, Chazy and Mooers in Clinton County. The District is governed by the Board of Education (Board), which is composed of seven elected members. The Board is responsible for the general management and control of the District's financial and educational affairs. The Superintendent of Schools is the District's chief executive officer and is responsible, along with other administrative staff, for the day-to-day management of the District under the Board's direction.

The District operates four schools with approximately 1,350 students and 230 employees. The District's budgeted appropriations for the 2015-16 fiscal year are \$27.4 million, funded primarily with State aid and real property taxes. The District's payroll expenditures totaled approximately \$15.9 million during our audit period. Effective February 2015,¹ the Board contracted with the Franklin-Essex-Hamilton Board of Cooperative Educational Services (BOCES) to outsource the District's payroll function.

Objective

The objective of our audit was to evaluate the District's payroll procedures. Our audit addressed the following related question:

- Did District officials establish adequate procedures to ensure employees were paid in accordance with employee contracts, collective bargaining agreements and Board authorizations?

Scope and Methodology

We examined the District's payroll procedures for the period July 1, 2014 through December 31, 2015.

We conducted our audit in accordance with generally accepted government auditing standards (GAGAS). More information on such standards and the methodology used in performing this audit are included in Appendix B of this report. Unless otherwise indicated in this report, samples for testing were selected based on professional judgment, as it was not the intent to project the results onto the entire population. Where applicable, information is presented concerning the value and/or size of the relevant population and the sample selected for examination.

¹ Prior to February 2015, a District employee was responsible for processing all payroll payments.

**Comments of
District Officials and
Corrective Action**

The results of our audit and recommendations have been discussed with District officials, and their comments, which appear in Appendix A, have been considered in preparing this report. District officials generally agreed with our recommendations and have initiated, or indicated they planned to initiate, corrective action.

The Board has the responsibility to initiate corrective action. Pursuant to Section 35 of General Municipal Law, Section 2116-a (3)(c) of New York State Education Law and Section 170.12 of the Regulations of the Commissioner of Education, a written corrective action plan (CAP) that addresses the findings and recommendations in this report must be prepared and provided to our office within 90 days, with a copy forwarded to the Commissioner of Education. To the extent practicable, implementation of the CAP must begin by the end of the next fiscal year. For more information on preparing and filing your CAP, please refer to our brochure, *Responding to an OSC Audit Report*, which you received with the draft audit report. The Board should make the CAP available for public review in the District Clerk's office.

Payroll

The Board approves amounts that employees are to be paid through collective bargaining agreements (CBAs), individual employee contracts and Board resolutions. A well-designed system for payroll processing requires the Board and District officials to establish policies and procedures that provide guidance and oversight for employees involved in the payroll process. While the District can outsource the payroll function to an independent third party, it is still the responsibility of District officials to verify that payroll payments are made in accordance with employee contracts and Board authorizations to ensure that employees receive no more or less than the pay they are entitled to.

During the 2014-15 fiscal year,² the Board outsourced the District's payroll function to BOCES. However, the District's procedures for day-to-day payroll processing did not clearly define the respective payroll responsibilities of BOCES and the District. For example, the District relied on BOCES to monitor the provisions of the CBAs and employment contracts, with limited oversight from District officials. Due to the complexity of the CBAs and contracts, the BOCES payroll clerk (payroll clerk) was not always aware of all applicable payroll provisions.

Although the Board adopted a payroll policy in November 2007 that included oversight procedures to mitigate the risks associated with outsourcing payroll, these procedures were either not adequately performed or not performed at all. For example, the policy states that the Superintendent³ is responsible for certifying the payrolls. However, the Superintendent did not compare the payroll registers with payroll source documents (e.g., time records) to ensure that payments were based on the actual hours or days worked and Board-authorized hourly rates or annual salaries. We found that once the District's courier delivered the District's biweekly timesheets to the payroll clerk, they were kept on file at BOCES and were never returned to the District. Therefore, District employees did not have the means to review the source documents to verify that the payroll clerk accurately processed payrolls. In addition, the policy requires the Superintendent to initiate periodic tests⁴ to verify the accuracy and appropriateness of the District's payroll. However, neither the

² The Board contracted with BOCES effective February 1, 2015.

³ Or the Business Manager, in the Superintendent's absence

⁴ The policy states that the tests should confirm that individuals listed on the payroll are currently employed by the District and that the titles, hours worked and wages listed are correct.

Superintendent nor any other District official conducted any periodic tests of the payroll during the audit period.

We reviewed gross pay computations totaling \$1,620,516⁵ for 20 employees⁶ during the audit period to determine if postings to the payroll agreed with input documents; if pay rates agreed with Board resolutions, employment contracts or CBAs; and if gross pay was calculated correctly. Three employees were overpaid by a combined total of \$9,630, as follows.

- One employee was overpaid during the 2014-15 fiscal year by \$8,189. The employment contract for this confidential/managerial employee stated that the employee shall be paid for overtime hours worked in excess of 40 hours per week up to a maximum annual amount equal to 5 percent of the employee's base salary, and that once the 5 percent limit is met, the employee should not be compensated for any further overtime work. District officials said they assumed BOCES was monitoring the maximum overtime payment provisions and, therefore, did not conduct their own reviews or oversee the process. However, BOCES was not aware of the provision and the employee was paid \$8,029 for overtime in excess of the 5 percent limit and an additional \$160 due to a clerical error⁷ in determining the employee's 2014-15 prorated annual salary.
- During the 2014-15 fiscal year, another employee covered by a similar employment contract was also paid for more overtime hours than allowed, totaling \$1,386 in excess of the 5 percent limit established by contract. This overpayment occurred because the payroll clerk⁸ and District officials did not monitor the overtime payments in accordance with the employment contract.
- A third employee received \$55 more during the audit period than the applicable agreement allowed. This was due to a clerical error made during the 2014-15 fiscal year when determining the percentage raise the employee was entitled to. Since the individual's 2015-16 gross pay computation was based on the prior year, the error continued to affect the

⁵ Payroll payments totaling \$1,132,820 during the 2014-15 fiscal year and \$487,696 during the period July 1, 2015 through December 31, 2015

⁶ Appendix B contains our sampling methodology.

⁷ The clerical error was made by a District employee before the payroll function was outsourced.

⁸ This overpayment was made by a District employee before the payroll function was outsourced.

individual's gross pay computation into the 2015-16 fiscal year. As a result, the individual was overpaid \$36 during 2014-15 and \$19 during 2015-16.

We also found that another employee was underpaid by \$551. During the 2015-16 fiscal year, the employee was paid for unused vacation leave, but the payroll clerk used the 2014-15 pay rate instead of the 2015-16 rate in accordance with the employee's employment contract. As a result, the individual was underpaid by \$484 during 2015-16 and by \$67⁹ during the 2014-15 fiscal year due to a similar clerical error.

While District officials provided general oversight of the payroll process, employees were both overpaid and underpaid during the period we reviewed. By establishing clear policies and specific procedures over the District's payroll processing, officials can reduce the risk of further errors or discrepancies occurring and not being detected.

Recommendations

1. District officials should adopt written policies and procedures for processing payrolls, clearly establishing the duties and responsibilities of each person involved in the payroll process, and monitor implementation of the policies.
2. The Superintendent, or in his absence the Business Manager, should compare payroll registers to source documents when certifying payrolls to ensure that gross pay computations are based on actual hours or days worked and Board-authorized hourly rates or annual salaries.
3. The Board should direct the District's attorney to review the identified overpayments to take whatever appropriate action within the law to recover those funds and should reimburse identified underpayments.

⁹ The clerical error was made by a District employee before the payroll function was outsourced.

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

The District officials' response to this audit can be found on the following pages.



AT
CHAMPLAIN

Northeastern Clinton Central School District

103 ROUTE 276

CHAMPLAIN, NEW YORK 12919

NYS Office of the State Comptroller
Division of Local Government and School Accountability
One Broad Street Plaza
Glens Falls, NY 12801

RE: Payroll Audit 2016M-76

The Northeastern Clinton Central School District acknowledges the receipt of the audit report conducted by the New York State Comptroller's Office for the time period of July 1, 2014 – December 31, 2015. The district have reviewed and verified the findings and agrees with the findings identified in the report. The Board of Education, the Administration and the Staff involved in the audit process at NCCS appreciate the professionalism and the assistance received during the audit process and is grateful for the recommendations and the suggestions provided that will improve payroll oversight and control in the future.

This letter serves as both an audit response and the required corrective action plan.

The District acknowledges the overpayments of overtime to two confidential employees who were limited by contractual language as to the amount of overtime they could earn within the duration of the contract in place at the time. There were many factors at the time of the payments that were not typical to the normal operation of the district as a whole and the payroll office in particular. The district was attempting to provide new contracts to confidential employees in a myriad of positions that better reflected their individual positions, levels of responsibilities and benefits. During that transition there were multiple contracts put into place and many areas that were left up to interpretation. Along with that the district was also transitioning to outsourcing payroll in an effort to provide better oversight of the payroll process that a small business office for a district the size of NCCS was having difficulty providing. Unfortunately the new payroll provider did not follow the overtime provision that was provided for in the affected employee's contract and district's Superintendent at the time continued to sign and approve overtime timesheets for these employees for overtime that should not have been authorized.

Along with other overpayments totaling \$215 and an underpayment of \$551 these two amounts have been determined to be due to a rounding error, contract interpretation as well as the use of a prior year daily and hourly rate for particular employees in the same confidential unit during the same time period mentioned above.

The overpayments and underpayments are being reviewed by the Districts Legal Council and based on their advisement the district will make a determination on and/or procedures for recouping district funds.

Corrective Action Plan:

1. Effective 7/1/2016 the district will be returning the payroll/HR function back to the district and hiring an experienced and qualified employee to process the districts payroll. The in-house oversight will be invaluable to proper oversight and control of the payroll function.
2. Contractual language and changes to contractual language is now reviewed by Legal Council in advance for clarity of intent and interpretation.
3. As of April 7th, 2016 we have a new District Superintendent who will be reviewing and properly implementing the payroll policies and procedures the district has in place for oversight and certification of payroll payments.
4. A Human Resource Officer has been hired to work one day a week through BOCES to provide additional guidance and assistance to the Payroll/Business and District offices.

The district is confident with the newly established structure will provide better oversight, the hiring of additional personnel will improve the levels of review and provide for periodic testing and new leadership will bring stability and consistency to the district.

Respectfully Submitted,

Bill R. Forkey
Board President
Northeastern Clinton CSD

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

The objective of our audit was to evaluate the District's payroll procedures for the period July 1, 2014 through December 31, 2015.

To accomplish our audit objective and obtain valid audit evidence, we performed the following procedures:

- We interviewed District officials and employees and reviewed the District's policy manual, employment contracts, collective bargaining agreements and various financial records and reports to gain an understanding of the District's procedures related to payroll and any associated effects of deficiencies in those procedures.
- We reviewed gross pay computations for 20 employees during our audit period to verify whether the employees' salaries and wages were accurately paid. For our sample, we selected the two District employees who were involved in the processing of payroll during our audit period and 18 other employees who received payroll payments during our audit period whose salaries and wages were outlined by CBAs and individual employee contracts, for a total of 20 employees. Specifically, we selected seven employees from the District teachers' unit, two employees from the administrative unit, two employees from the managerial/confidential unit, six employees whose salaries and wages were outlined in a CSEA (Civil Service Employees Association) collective bargaining agreement, and one employee with an individual employment contract.

We conducted this performance audit in accordance with GAGAS. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

APPENDIX C

HOW TO OBTAIN ADDITIONAL COPIES OF THE REPORT

To obtain copies of this report, write or visit our web page:

Office of the State Comptroller
Public Information Office
110 State Street, 15th Floor
Albany, New York 12236
(518) 474-4015
<http://www.osc.state.ny.us/localgov/>

APPENDIX D
OFFICE OF THE STATE COMPTROLLER
DIVISION OF LOCAL GOVERNMENT
AND SCHOOL ACCOUNTABILITY

Andrew A. SanFilippo, Executive Deputy Comptroller
Gabriel F. Deyo, Deputy Comptroller
Tracey Hitchen Boyd, Assistant Comptroller

LOCAL REGIONAL OFFICE LISTING

BINGHAMTON REGIONAL OFFICE

H. Todd Eames, Chief Examiner
Office of the State Comptroller
State Office Building, Suite 1702
44 Hawley Street
Binghamton, New York 13901-4417
(607) 721-8306 Fax (607) 721-8313
Email: Muni-Binghamton@osc.state.ny.us

Serving: Broome, Chenango, Cortland, Delaware,
Osego, Schoharie, Sullivan, Tioga, Tompkins Counties

BUFFALO REGIONAL OFFICE

Jeffrey D. Mazula, Chief Examiner
Office of the State Comptroller
295 Main Street, Suite 1032
Buffalo, New York 14203-2510
(716) 847-3647 Fax (716) 847-3643
Email: Muni-Bufferalo@osc.state.ny.us

Serving: Allegany, Cattaraugus, Chautauqua, Erie,
Genesee, Niagara, Orleans, Wyoming Counties

GLENS FALLS REGIONAL OFFICE

Jeffrey P. Leonard, Chief Examiner
Office of the State Comptroller
One Broad Street Plaza
Glens Falls, New York 12801-4396
(518) 793-0057 Fax (518) 793-5797
Email: Muni-GlensFalls@osc.state.ny.us

Serving: Albany, Clinton, Essex, Franklin,
Fulton, Hamilton, Montgomery, Rensselaer,
Saratoga, Schenectady, Warren, Washington Counties

HAUPPAUGE REGIONAL OFFICE

Ira McCracken, Chief Examiner
Office of the State Comptroller
NYS Office Building, Room 3A10
250 Veterans Memorial Highway
Hauppauge, New York 11788-5533
(631) 952-6534 Fax (631) 952-6530
Email: Muni-Hauppauge@osc.state.ny.us

Serving: Nassau and Suffolk Counties

NEWBURGH REGIONAL OFFICE

Tenneh Blamah, Chief Examiner
Office of the State Comptroller
33 Airport Center Drive, Suite 103
New Windsor, New York 12553-4725
(845) 567-0858 Fax (845) 567-0080
Email: Muni-Newburgh@osc.state.ny.us

Serving: Columbia, Dutchess, Greene, Orange,
Putnam, Rockland, Ulster, Westchester Counties

ROCHESTER REGIONAL OFFICE

Edward V. Grant, Jr., Chief Examiner
Office of the State Comptroller
The Powers Building
16 West Main Street, Suite 522
Rochester, New York 14614-1608
(585) 454-2460 Fax (585) 454-3545
Email: Muni-Rochester@osc.state.ny.us

Serving: Cayuga, Chemung, Livingston, Monroe,
Ontario, Schuyler, Seneca, Steuben, Wayne, Yates Counties

SYRACUSE REGIONAL OFFICE

Rebecca Wilcox, Chief Examiner
Office of the State Comptroller
State Office Building, Room 409
333 E. Washington Street
Syracuse, New York 13202-1428
(315) 428-4192 Fax (315) 426-2119
Email: Muni-Syracuse@osc.state.ny.us

Serving: Herkimer, Jefferson, Lewis, Madison,
Oneida, Onondaga, Oswego, St. Lawrence Counties

STATEWIDE AUDITS

Ann C. Singer, Chief Examiner
State Office Building, Suite 1702
44 Hawley Street
Binghamton, New York 13901-4417
(607) 721-8306 Fax (607) 721-8313